

## Message Text

SECRET

PAGE 01 BONN 17727 01 OF 02 131107Z

13

ACTION SS-25

INFO OCT-01 ISO-00 /026 W

----- 089406

R 131039Z NOV 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6222

INFO USMISSION USBERLIN

S E C R E T SECTION 01 OF 02 BONN 17727

STADIS////////////////////////////////////

EXDIS

USBERLIN FOR THE AMBASSADOR

E.O. 11652: GDS

TAGS: MARR, MPOL, MILI, PFOR, ECON, ENRG, FR, GW

SUBJECT: CONVERSATION BETWEEN CHANCELLOR SCHMIDT AND  
SECDEF SCHLESINGER NOVEMBER 4

BEGIN SUMMARY: IN THE SEVENTY MINUTE DISCUSSION BETWEEN  
THE CHANCELLOR AND SECDEF, THEY DEALT MUCH MORE WITH  
ECONOMIC THAN PURELY DEFENSE MATTERS. SCHMIDT MADE A  
PARTICULARLY GLOOMY ANALYSIS OF THE WORLD ECONOMIC  
SITUATION AND THE SEEMINGLY INSOLUBLE DIFFICULTIES  
CREATED BY THE ENERGY CRISIS. SCHMIDT MADE A PLEA FOR  
U.S. UNDERSTANDING OF GISCARD'S DIFFICULT POSITION,  
INCLUDING HIS OIL INITIATIVE. AT THE SAME TIME HE FELT  
THE PRESIDENT SHOULD CONVEY TO GISCARD AT THEIR  
DECEMBER MEETING THAT FRANCE CANNOT AVOID THE CONSEQUENCES OF THE ENERGY CRISIS THROUGH BILATERAL EFFORTS.  
END SUMMARY

1. THE CHANCELLOR OPENED BY SAYING THAT, AS HE SAW THE  
CURRENT SITUATION, THERE WAS NO REAL DEFENSE CRISIS.  
THE CRISIS THAT MATTERED WAS IN THE ECONOMIC AREA.  
SECRETARY SCHLESINGER SAID THAT IT WAS TRUE THERE WAS  
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PAGE 02 BONN 17727 01 OF 02 131107Z

NO DEFENSE CRISIS BETWEEN THE FEDERAL REPUBLIC AND THE

UNITED STATES, BUT THERE WERE MANY DEFENSE PROBLEMS  
WITHIN THE NATO ALLIANCE.

2. THE CHANCELLOR COMMENTED THAT THIS WAS TRUE ENOUGH,  
BUT THEY HAD TO BE SEEN IN PERSPECTIVE. HE REFERRED TO  
THE U.K. DEFENSE REVIEW SOON TO BE COMPLETED. BASICALLY,  
HOWEVER, HE ADDED, IT WOULD NOT MAKE ALL THAT MUCH  
DIFFERENCE, SINCE ONE THIRD OF THE BRITISH ARMY OF THE  
RHINE WAS ALREADY IN NORTHERN IRELAND. IF THIS  
SITUATION WERE MERELY FORMALIZED BY THE DEFENSE REVIEW,  
NATO WOULD BE NO WORSE OFF THAN IT WAS AT PRESENT. IN  
OTHER COUNTRIES, SUCH AS THE NETHERLANDS AND DENMARK,  
THERE WAS A DEEP-SEATED PSYCHOLOGICAL TENDENCY TO FEEL  
THAT STRENUOUS EFFORTS TO MAINTAIN DEFENSE ESTABLISH-  
MENTS WERE NO LONGER REQUIRED.

3. SECRETARY SCHLESINGER SUGGESTED THAT THE FRG SHOULD  
NOT BE TOO TIMID IN EXERCISING LEADERSHIP WITHIN NATO.  
THE CHANCELLOR RESPONDED THAT, FOR IMPORTANT HISTORICAL  
REASONS, ANY GERMAN LEADER WOULD HAVE TO FEEL INHIBITED  
IN DEMONSTRATING SUCH LEADERSHIP. HE HAD TO ADMIT,  
HOWEVER, THAT THE U.K. WAS NOT IN A POSITION TO PLAY  
A SIGNIFICANT ROLE IN EUROPE UNTIL IT DECIDED WHETHER  
OR NOT IT WAS GOING TO REMAIN AS A MEMBER OF THE  
EUROPEAN COMMUNITY.

4. TURNING TO THE ECONOMIC SITUATION, THE CHANCELLOR  
SAID THAT THE CURRENT PROGRAM OF THE USG WAS A MATTER OF  
TOO LITTLE AND TOO LATE. IF THE BASICALLY DEFLATIONARY  
MEASURES INVOLVED COULD HAVE BEEN INSTITUTED IN THE  
EARLY 1970'S, THEY WOULD HAVE BEEN MORE RELEVANT AND  
EFFECTIVE. NOW SUCH DEFLATIONARY MEASURES COULD ONLY  
ACCELERATE THE PROGRESS OF THE U.S. DEPRESSION AND,  
BECAUSE OF THE IMPORTANCE OF THE U.S., THREATEN TO  
BRING ABOUT A WORLDWIDE DEPRESSION IN THEIR WAKE.

5. AS FAR AS THE FRG WAS CONCERNED, EXPORTS WERE  
HOLDING UP VERY WELL INDEED. THE FRG WAS GOING TO END  
UP 1974 WITH A VERY LARGE SURPLUS, SOMEWHERE BETWEEN  
40 AND 50 BILLION DM, OF EXPORTS OVER IMPORTS. IN

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SECRET

PAGE 03 BONN 17727 01 OF 02 131107Z

RESPONSE TO SECRETARY SCHLESINGER'S QUERY AS TO THE  
REASONS FOR THIS, THE CHANCELLOR SAID IT COULD ONLY  
BE ATTRIBUTED TO THE DISCIPLINE OF THE GERMAN LABOR  
FORCE WHICH MAINTAINED HIGH PRODUCTIVITY, EFFICIENCY  
AND SKILL. LOOKING AHEAD, HOWEVER, HE COULD ONLY  
REMIND THE SECRETARY THAT, WHILE THE U.S. WAS DEPENDENT  
ON EXPORTS FOR FIVE PERCENT OF ITS GNP, EXPORTS  
CONSTITUTED SOME 23 PERCENT OF THE FRG'S GNP. THE

DRYING-UP OF THE LATTER'S MAJOR EXPORT MARKETS BECAUSE  
OF A COLLAPSE OF THE EUROPEAN ECONOMY CAUSED BY THE  
OIL PRICE SITUATION WOULD INEVITABLY HAVE SERIOUS CONSE-

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PAGE 01 BONN 17727 02 OF 02 131109Z

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S E C R E T SECTION 02 OF 02 BONN 17727

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QUENCES FOR THE FRG. FOR THE NEXT FEW YEARS, HOWEVER,  
GIVEN THE ENORMOUS SIZE OF THE FRG'S RESERVES - SOME 85  
BILLION DM - THE FRG COULD CONTINUE TO FINANCE ITS  
REQUISITE IMPORTS EVEN IF RUNNING A PAYMENTS DEFICIT.  
HE DID NOT BELIEVE, HOWEVER, THAT SUCH A DEFICIT WOULD  
OCCUR DURING THE IMMEDIATE PERIOD AHEAD.

6. SECRETARY SCHLESINGER OBSERVED THAT WE WERE TRYING  
TO DEAL WITH OUR INFLATION BY SHRINKING THE LEVEL OF  
AGGREGATE DEMAND. SCHMIDT COMMENTED THAT IT WAS TOO  
ATE FOR THAT, AND THAT THE U.S. GOVERNMENT WOULD FIND  
IT IMPOSSIBLE TO PURSUE SUCH POLICY IN THE FACE OF  
GROWING DEPRESSION AND UNEMPLOYMENT. THE FRG WAS NOW  
REAPING THE BENEFITS OF THE DEFLATIONARY MEASURES WHICH  
IT TOOK IN 1973, BUT AT THE END OF THIS YEAR OR EARLY IN  
1975, HIS GOVERNMENT WOULD ADOPT A NEW POLICY OF  
SUBSTANTIALLY EXPANDING DOMESTIC DEMAND. FOR THE  
REASONS INDICATED, HE WOULD NOT HAVE TO BE TOO CONCERNED  
ABOUT THE EFFECT ON THE FRG BALANCE OF PAYMENTS. RATHER  
RUEFULLY, THE CHANCELLOR ADDED, DESPITE THE FACT THAT

HIS GOVERNMENT WAS PURSUING A LOGICAL AND BASICALLY  
SUCCESSFUL ECONOMIC POLICY, IT KEPT ON LOSING VARIOUS  
LAHD ELECTIONS.

7. AS FAR AS THE POSITION OF THE WESTERN WORLD AS A  
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PAGE 02 BONN 17727 02 OF 02 131109Z

WHOLE WAS CONCERNED, THE CHANCELLOR SAID THAT HE SIMPLY  
SAW NO SOLUTION TO THE PROBLEM OF OFFSETTING THE OUTFLOW  
OF WESTERN ASSETS TO THE OIL-PRODUCING COUNTRIES.  
RECYCLING, IF IT TOOK PLACE, WOULD QUICKLY RUN INTO THE  
PRACTICAL DIFFICULTIES OF EITHER A LARGE-SCALE AND  
POLITICALLY UNACCEPTABLE ARAB TAKEOVER OF NATIONAL  
INDUSTRIES, OR TO THE PILING UP OF AN UNSUPPORTABLE  
DEBT BURDEN. ONE APPROACH MIGHT BE TO ATTEMPT TO  
ISOLATE TRADE BETWEEN THE FREE WESTERN COUNTRIES AND  
TO KEEP IT FLOWING AT A MAXIMUM LEVEL, WHILE CUTTING  
DOWN TO THE BARE MINIMUM NECESSARY IMPORTS FROM OUTSIDE  
THAT AREA, BUT THIS WOULD NOT REALLY SOLVE THE PROBLEM  
CREATED BY THE UTTER DEPENDENCY OF THE ADVANCED  
INDUSTRIAL COUNTRIES ON ENERGY IMPORTS. SECRETARY  
SCHLESINGER ASKED WHAT BARGAINING POWER THE CONSUMING  
NATIONS ACTUALLY HAVE. SCHMIDT DID NOT ANSWER  
DIRECTLY, BUT IMPLIED THAT THEY WERE IN A VERY WEAK  
BARGAINING POSITION. INDEED, GIVEN THE ASSUMPTIONS UNDER  
WHICH THEY WERE PRESENTLY OPERATING.

8. SCHMIDT THEN WENT ON TO MAKE A PLEA ON BEHALF OF  
FRENCH PRESIDENT GISCARD D'ESTAING. GISCARD MEANT WELL  
AND WAS AN INTELLIGENT MAN, BUT HE WAS OPERATING ON  
THE BASIS OF A VERY THIN MARGIN OF PARLIAMENTARY  
SUPPORT. HE THEREFORE FREQUENTLY HAD TO TAKE A PUBLIC  
POSITION INCONSISTENT WITH HIS PRIVATE CONVICTION ON  
SUCH MATTERS AS ENERGY COOPERATION AND DEFENSE POLICY.  
HERE HE WAS A HOSTAGE TO THE GAULLISTS. IT WAS  
DESIRABLE, HOWEVER, THAT HE BE TREATED WELL, AND THE  
CHANCELLOR MADE A PLEA THAT WE BE NOT TOO HARD ON THE  
FRENCH OIL INITIATIVE. IT WAS IMPORTANT, HOWEVER, WHEN  
GISCARD MET WITH THE PRESIDENT IN DECEMBER THAT THE  
POINT BE CONVEYED STRONGLY TO HIM THAT FRANCE CANNOT  
AVOID THE CONSEQUENCES OF THE ENERGY CRISIS BY  
FUTILE BILATERAL EFFORTS. HILLENBRAND

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